DENISON MINES LIMITED

# INTERIM REPORT

1979

# DENISON MINES LIMITED

To Our Shareholders

Consolidated net earnings of $29,410,000 for the first six months of 1979 are equal to $1.61 per common share and are the highest for any six-month period in the Company's history. These earnings represent an increase of 13% from the 1978 consolidated net earnings of $26,034,000 for the comparable period which were equal to $1.43 per common share after adjusting for the four-for-one subdivision of common shares effective February 23, 1979.

This further improvement in earnings reflects higher revenues from oil, gas and uranium. The discount on the Canadian dollar had a beneficial impact on earnings. Total sales of $151,623,000 are up 25% from $121,517,000 of sales reported for the six months ended June 30, 1978.

As a result of the improvement in earnings, the Board of Directors increased the quarterly dividend paid on June 15, 1979 to 30 cents per share from the initial 25 cents paid in March, 1979 on the new subdivided shares. This latest dividend indicates an annual rate of $1.20 per share, compared with an equivalent 60 cents paid on the common shares in 1978.

In addition to the expansion of uranium production facilities at Elliot Lake, your Company has other important and substantial projects underway as follows:

- *In Greece,* two drilling platforms are being put in place with development drilling to start in August and oil is expected to flow to the mainland early in 1981. The Prinos and South Kavala project is the first commercial development of oil and gas in Greece and is vital to that country's energy requirements.

- *In Spain,* the first development well is being drilled with oil production to start in November and to build to the planned 45,000 barrels daily rate over a period of two years. As a result of world oil shortages, there is a special urgency in Spain to accelerate and broaden development of the Casablanca Field – the largest known source of oil in that country.

- *Quintette Coal Limited,* managed by Denison and in which your Company has a 38.25% interest, achieved an important step in completing an agreement to supply 25 to 30 million tonnes of metallurgical coal to Romania over a 20-year period. Efforts are now being directed to obtaining the additional coal sales contracts for this northeastern British Columbia project which are essential to its commencement.

- *In New Brunswick,* underground exploration and development are being carried out on deposits of high quality potash acquired earlier this year. This is the initial stage in a development which is expected to involve a capital expenditure of at least $150 million with a production target date of 1983.

Although there has been much public debate regarding the role of nuclear energy, it is becoming clear that this form of energy remains a vital choice if economies of western industrial nations are to be healthy. The Premier of Ontario, the Honourable William Davis, has emphasized the need for nuclear power in his government's efforts to assure future energy supplies. France, as a leading European nation, has also pointed out the painful facts of life regarding cost and availability of alternative sources. In Japan, the need for nuclear energy is recognized as even more vital in light of that nation's present dependency on high-cost fossil fuels.

Further details of the activities of Denison Mines are contained in the following reports of the principal interests and divisions.

Work also continues on our mineral properties in Ontario, British Columbia and the Northwest Territories, as well as on property examinations in Quebec and the Maritime Provinces.

In the United States, drilling continues on the LeBar Hall uranium property in Wyoming with encouraging results. Further drilling on the Spokane Indian Reservation in Washington continues to be promising. More testing is required to adequately evaluate preliminary indications.

Projects currently under study include a silver prospect in Nevada, a copper property in Washington and base metal and precious metal prospects in Alaska and midwestern U.S.A.

In Africa, exploration continues to outline placer gold reserves in the Cameroon Republic. The success of this evaluation indicates the possibility of undertaking a detailed economic production feasibility study by the end of the year. Prospecting for other minerals is underway on the large area covered by a prospecting licence.

## LAKE ONTARIO CEMENT LIMITED

Sales and operating earnings for the first half of 1979 generally approximated 1978 levels. This 54% owned subsidiary serves cement markets in Ontario, Michigan and New York State and ready-mixed concrete and concrete block markets in Ontario.

Consolidated sales for the six-month period ended June 30, 1979 were $33,445,000, an increase of 4.5% over the 1978 first half sales of $32,012,000. Consolidated net earnings were $205,000 compared to $171,000 for the same period last year. This is before an extraordinary net gain this year of $650,000 which increased earnings for the six months to 19.9¢ per share from 4.8¢ per share.

The extraordinary item reflected the net proceeds of a settlement of a claim relating to the expropriation in 1973 of a lease of property held by the company near its cement plant at Picton, Ontario. This settlement was for $850,000 plus interest, legal and other costs.

Volume of cement shipments was below last year's level because of poor weather and slower than anticipated construction activities in the company's various market areas. The decline in volume was generally offset by stronger selling prices. In Ontario, the ready-mixed concrete and concrete block operations were adversely affected by the particularly slow Metropolitan Toronto and Hamilton construction markets.

Outlook for the balance of the year is somewhat mixed, with the major concern being the depth of the predicted recession in the United States.

## IN CONCLUSION

Effective January 15, 1979, Mr. John Kostuik, your Company's President for 10 years, formally retired. Mr. Kostuik remains as a Director and will act in a consulting capacity to the Company. We take this opportunity to again express the thanks of the shareholders for his outstanding contribution to the growth and health of the Company.

The Board of Directors has appointed the Chairman to the position of President.

We wish to thank our shareholders for their continued support and interest in the progress of the Company.

On behalf of the Board of Directors

STEPHEN B. ROMAN
Chairman of the Board
and President

Toronto, Ontario
July 13, 1979

## URANIUM

The continuing major expansion of the Elliot Lake uranium mining and milling facilities highlighted the first six months of 1979. This program will double milling capability to 15,000 tons per day and increase uranium output to a long-term annual 6,000,000 pounds uranium oxide capacity by the early 1980's. The first stage of this phased program is on schedule for start-up in mid-1980. With more than 50 percent of the expenditures committed, the expansion is within the capital cost estimate. Uranium production currently is at a rate of 4.9 million pounds annually.

In the first half of this year, the production facility operated at an average of 7,173 tons daily. A total of 1,291,052 tons was milled with 2,388,337 pounds packed.

The report of the Ontario Environmental Assessment Board concerning expansion of the uranium mines in Elliot Lake was published after more than three years of exhaustive study. Final recommendations have been tabled with the Ontario Cabinet. In general, the report is favourable. The Board supports the Company's position that current mining expansion can be implemented.

All of the Company's labour agreements were renewed on a long-term basis, without work interruption. An intensive recruiting and training program is underway to man the new, expanded facilities. The pool of experienced miners and skilled tradesmen in Canada is drying up. Training, in programs developed over several years, has been intensified to assist in meeting Denison's needs.

## OIL AND GAS

*CANADA:*

Oil and gas income is ahead of 1978 due to a slightly higher demand for oil and higher oil and gas prices. A further rise in oil prices of $1.00 per barrel went into effect on July 1, 1979 and a gas price increase is expected to follow.

*Alberta:* A Devonian test was drilled and abandoned at no cost to Denison on our acreage in the Pembina Field under a farmout agreement. Two new oil wells, 100% owned by Denison, were drilled at Armisie and are being placed on pump production. Seismic surveys were completed at Brazeau and drilling to the Devonian is planned in the near future. Development drilling is programmed for the Niton and Edson areas.

*British Columbia:* A successful development gas well was drilled at Sierra.

*UNITED STATES:*

*Texas:* Drilling in Webb County initially resulted in a non-commercial gas find. The well is being recompleted for testing in a secondary objective zone. In Tom Green County, two wells were drilled and abandoned.

*Louisiana:* Denison has acquired an interest in three offshore blocks in the Gulf of Mexico. Drilling operations are in progress from a platform on Ship Shoal Block 320 where commercial gas sales to pipeline are expected to commence around year end. On West Cameron Block 625, one expendable evaluation well was drilled using a semi-submersible platform. On West Cameron Block 624, where previous drilling had proven commercial gas reserves, a drilling platform is now in place and a drilling rig will be installed shortly for development drilling.

*Mississippi:* Denison has acquired approximately 4,800 net acres in Jefferson-Davis County where a well, to be drilled to a depth of 15,800 feet, has commenced drilling. This well is an offset to a commercial gas well in the Carson area.

*GREECE:*

The two four-pile drilling platforms built in Italy and Greece are completed and are being put in place in the Aegean Sea. Drilling is to commence in August. Penrod Drilling will supply one jackup type drilling rig. Tenders have been called for a second rig. Engineering and procurement for the Prinos development is well advanced. Construction at the onshore plant site is underway. Mechanical completion of the project is presently scheduled for the end of 1980.

*SPAIN:*

Drilling of the first development well has commenced. This well, Casablanca No. 6, initiates Phase 1 of the Casablanca Field development. Casablanca 6 and Casablanca 1A wells will produce oil through facilities located on the "Afortunada" semi-submersible drilling platform, commencing in November, 1979. A permanent platform is to be built in Spain for installation in 550 feet of water from which initially three development wells will be drilled directionally into the Casablanca reservoir. Unitization of the Montanazo and sectors of the Casablanca Field is being negotiated.

*GUYANA:*

Denison has acquired a 50% interest in an exploration permit offshore Guyana in South America comprising 4,390 square miles.

*UNITED KINGDOM:*

Denison Mines (U.K.) Limited, which held Denison's interest in Block 3/7 in the North Sea, was sold to the British National Oil Corporation.

*UNITED REPUBLIC OF CAMEROON:*

A new geophysical program is now in progress.

## COAL

The Japanese steel industry is recovering from its recession, thus generating renewed interest in obtaining new sources of metallurgical coal. Concurrently, there is a rapidly increasing demand for thermal coal for use in electric power generation.

The Coal Division is, therefore, continuing to emphasize its marketing activities relative to both metallurgical and thermal coal.

Agreement was reached in June, 1979 regarding the purchase by Romania of 25 to 30 million tonnes of Quintette metallurgical coal over a 20-year period commencing in 1982. Commercial negotiations for the sale of Quintette metallurgical coal are proceeding in Japan, Korea, France and Spain. Similar negotiations will commence in August in Brazil and Sweden.

Discussions are continuing with governmental authorities to finalize plans for the port and rail facilities necessary for Quintette coal shipments, via Prince Rupert in British Columbia.

Results of the 1978 exploration program on Belcourt indicate potential reserves on the property in excess of 1.1 billion tonnes. An extensive field exploration program, concentrating on four potential open pit mining areas, is underway at Belcourt.

Preparations are being completed for exploration programs at the Coalspur and Whitecourt thermal coal properties.

Commercial proposals have been made for the supply of thermal coal from the Quintette property to Korea and Taiwan. Thermal coal from Coalspur has also been offered to Taiwan and Puerto Rico.

In April, 1979 two new coking coal properties were acquired in northeastern British Columbia – Hanington and Fort St. John. Preliminary geological mapping will be undertaken this year.

## EXPLORATION

Exploration activity by Denison and its associated companies continues at a high level. This Division is now active in Canada, the United States, Australia, Africa, South America, Mexico and Europe.

The major area of activity continues to be in Canada, particularly in Saskatchewan and Manitoba where the search for uranium deposits is continuing. While uranium has been encountered, no showings of major importance were found on the few anomalies tested to date. The crews have returned to the field and are engaged in defining targets for drilling later this year.

# DENISON MINES LIMITED

| **Summary of Consolidated Earnings** | Six Months Ended June 30 1979 | 1978 |
|---|---|---|
| Gross revenue | | |
| Minerals (uranium, limestone products, oil and gas) | $118,179,000 | $ 89,505,000 |
| Cement and cement products | 33,444,000 | 32,012,000 |
| | 151,623,000 | 121,517,000 |
| Production, exploration and administration costs | 99,474,000 | 81,601,000 |
| | 52,149,000 | 39,916,000 |
| Other income | 12,305,000 | 18,274,000 |
| Earnings before items shown below | 64,454,000 | 58,190,000 |
| Depreciation, depletion and amortization | 6,920,000 | 5,137,000 |
| Interest on long-term debt | 2,166,000 | 1,613,000 |
| | 9,086,000 | 6,750,000 |
| Earnings before taxes | 55,368,000 | 51,440,000 |
| Income and mining taxes | 25,574,000 | 25,339,000 |
| Earnings before minority interest | 29,794,000 | 26,101,000 |
| Minority interest | 384,000 | 67,000 |
| Net earnings for the period | $ 29,410,000 | $ 26,034,000 |
| Net earnings per share | $ 1.61 | $ 1.43 |

| **Consolidated Statement of Changes in Financial Position** | | |
|---|---|---|
| SOURCES OF WORKING CAPITAL | | |
| Provided from operations | $ 43,130,000 | $38,238,000* |
| Increase in advances on concentrate sales contracts | 21,869,000 | 42,350,000 |
| Issue of mortgages primarily on construction and purchase of Elliot Lake housing units | 5,985,000 | 9,418,000 |
| Net proceeds on sale of long-term investments and interests in mineral ventures | 24,234,000 | 13,810,000* |
| Other | 215,000 | 560,000 |
| | 95,433,000 | 104,376,000 |
| USES OF WORKING CAPITAL | | |
| Additions to fixed assets | 106,550,000 | 25,836,000 |
| Purchase of long-term investments | 20,176,000 | 11,875,000 |
| Dividends | 10,050,000 | 5,482,000 |
| Reduction of long-term debt | 84,000 | 78,000 |
| Dividends to minority shareholders of Lake Ontario Cement Limited | 299,000 | 199,000 |
| | 137,159,000 | 43,470,000 |
| Increase (decrease) in working capital | $(41,726,000) | $ 60,906,000 |

*Restated to conform to 1979 classification.

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FOR RELEASE: 4 p.m. EST
Wednesday, Jan. 17, 1979

TORONTO -- Denison Mines Limited today reported consolidated net earnings of $58,241,136 for 1978--more than double the record profit performance achieved in 1977. This represents $12.75 per share, as compared with $6.10 per share the previous year.

Total sales rose to $269,888,785, compared with $199,062,788 in 1977, more than three times the sales level of 1974.

The sharp advance in earnings was due mainly to increased shipments of uranium. Other factors were slightly higher net revenues from Denison's Alberta oil and gas interests; a marked improvement in profits from cement operations; higher investment income; and a gain on the sale of an interest in a mineral venture.

In the company's 1978 Annual Report to Shareholders, Stephen B. Roman, Chairman and Chief Executive Officer, summed up the company's position as follows: "The gratifying results of 1978, with record earnings achieved and major growth projects undertaken, represent the culmination of past efforts as well as the beginning of new progress. An expanded base is being created for Denison's future as a Canadian-owned corporation with multi-national projects and interests."

Mr. Roman noted that, as a result of the company's greatly improved financial condition, a special dividend of $5 per share was paid in December; the Board has recommended a four-for-one split of the common shares for the consideration of shareholders at the annual meeting on Feb. 9; and the Board proposes to declare a quarterly dividend of 25 cents per share on each of the new shares. This is the equivalent of $4 per share annually on the presently outstanding shares and represents a 66-2/3% increase over the $2.40 regular dividend paid in 1978.

Uranium remains the core of Denison's operations and the company continues to pursue the growth of this business through the expansion of production at its Elliot Lake mines and milling facilities and through the search for new deposits in Canada, the United States, Africa, Australia, Central America and the Caribbean.

Uranium oxide production was up 22% to 4,900,000 pounds in 1978, and expansion now under way at Elliot Lake will bring annual output to 6,000,000 pounds by the early 1980s.

Mr. Roman pointed out that "with 194,000,000 pounds of uranium oxide to be delivered over the next 32 years (through contracts with Japan, Spain and Ontario Hydro), the Elliot Lake operations have an assurance of stability and continuity seldom, if ever, achieved by any industrial enterprise."

He noted that growth in uranium production and deliveries assures continuing strong earnings and that participation in new business opportunities, such as two offshore oil and gas developments, is expected to make a significant contribution to the profit picture by the early 1980s.

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Mr. Roman noted that, as a result of the company's greatly improved financing condition, a special dividend of $1 per share was paid in December. The Board has recommended a four-for-one split of the common shares for the consideration of shareholders at the annual meeting on Feb. 8; and the Board proposes to declare a quarterly dividend of 25 cents per share on each of the new shares. This is the equivalent of $4 per share annually on the presently outstanding shares and represents a 66-2/3% increase over the $2.40 regular dividend paid in 1978.

Uranium remains the core of Denison's operations and the company continues to secure the future of this business through the expansion of production at its Elliot Lake mines and milling facilities and through the search for new deposits in Canada, the United States, Africa, Australia, Central America and the Caribbean.

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He noted that growth in uranium production and deliveries assures continuing strong earnings and that participation in new business opportunities, such as two offshore oil and gas developments is expected to make a significant contribution to the profit picture by the early 1980s.

Denison has a 68.75% interest in Greece's first commercial oil and gas field in the North Aegean Sea about 12 miles offshore from the coastal community of Kavala. Facilities to tap the Prinos oil field and the nearby South Kavala gas field are now under construction and production is scheduled to start in December, 1980.

Also scheduled for completion in 1980 is development of Spain's largest oil field, called the Casablanca and located in the Mediterranean Sea about 30 miles from the coastal community of Tarragona. An undersea pipeline will link the wells to refineries at Tarragona. Denison has a 15% interest in one sector of the Casablanca field, and a 5% interest in another.

Other noteworthy items in the comprehensive 40-page report:

(a) Lake Ontario Cement (54% owned by Denison) had a good year, with consolidated earnings up 57% to $3,149,910. Sales reached a record $78,363,743, with U.S. markets particularly strong.

(b) Exploration and feasibility studies continued on Denison's metallurgical coal properties--Quintette, Belcourt and Saxon--in northeastern British Columbia, and there has been increasing international interest in the company's Coalspur thermal coal property in northern Alberta.

In his message to shareholders, Mr. Roman said: "Denison Mines is an example of the ability of private enterprise to manage its business effectively during a time of economic uncertainty in many parts of the world. Increasingly, Canadian political leaders and economists--indeed, society generally--are being forced to recognize that the private sector is the only segment of our society capable of producing wealth and, with it, the employment and economic stability which are so desperately required at this time."

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